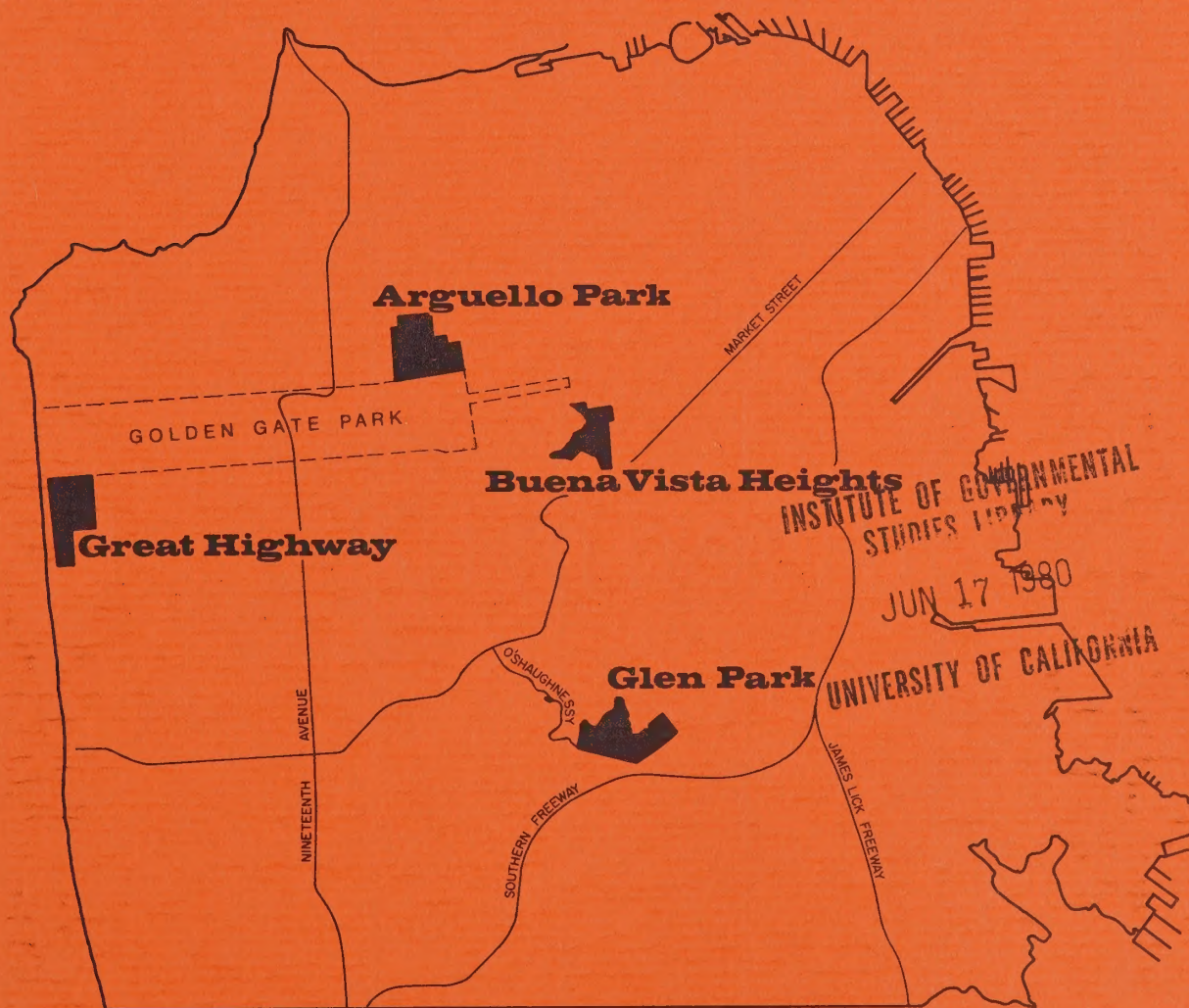


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RENT & Code Enforcement

A Survey of Rental Behavior in San Francisco FACE Areas




RENT AND CODE ENFORCEMENT
A Survey of Rental Behavior in San Francisco FACE Areas

Department of City Planning in cooperation with the
Department of Public Works.....December 1971

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RENT AND CODE ENFORCEMENT

Introduction

Rent levels, like everything else, seem to have climbed drastically in the last few years. At the same time in San Francisco at least, vacancy rates have been exceedingly low, and low-cost housing has become increasingly scarce. Against this background it is not surprising that citizens are fearful of public projects or programs which could aggravate the problem.

In response to expressed concerns that F.A.C.E. (Federally Assisted Code Enforcement) would cause massive rent increases in some areas being considered for the program, the Department of City Planning undertook a survey of the initial F.A.C.E. program to see what did occur and what the implications might be on future projects. The survey covered the five year period of 1966-71. F.A.C.E. was in operation in four neighborhoods from February 1967 to October 1970. A City-wide survey of rents taken in 1966 enabled comparison of the F.A.C.E. areas with the City as a whole.

In order to make the results as free of bias as possible, both tenants and owners were surveyed. Questionnaires were mailed to all owners (1207) of properties with two or more dwelling units. Over a two month period 188 responses were received, amounting to 15.5 percent of the owners. During this period 147 tenants were interviewed by telephone; these interviews were conducted in

evening as well as daytime hours. Initially some comparisons were made between answers given by owners and their tenants to identical questions. Answers proved to be quite similar, indicating that the information being collected was reliable.

The location of the respondents and interviewees was plotted on maps to see if any locational factors would bias the survey findings. The distribution appeared to be fairly representative of the actual disposition of apartments within the neighborhoods.

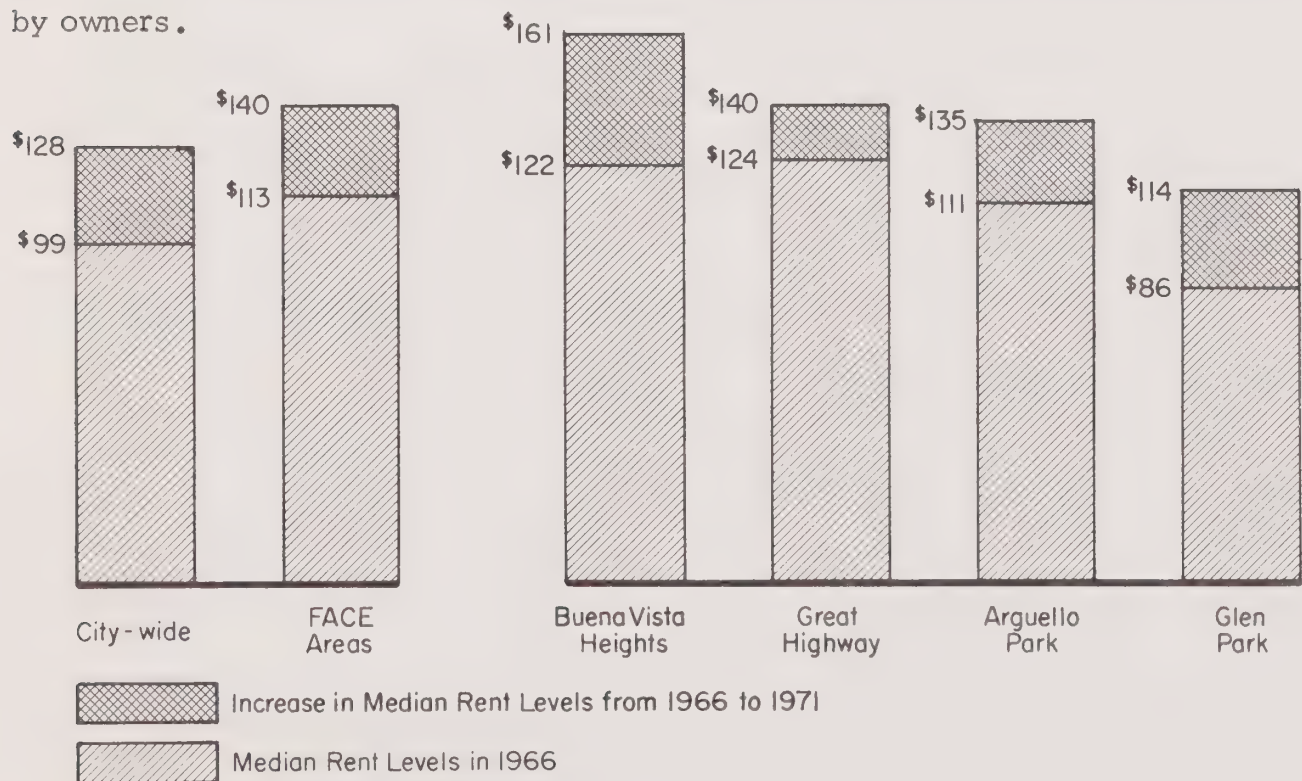
Tenants were asked to describe the size of their apartment, their rent, the rent they paid five years ago (or the rent they first paid and when they moved in, if after 1966). They were also asked a series of questions relating to whether or not they planned to move and whether they thought improvements made were worth the higher rent.

Owners were asked the number of units in the building, the 1966 and 1971 aggregate rents (for newer owners the initial rents and the year were asked). In addition, they were asked reasons for raising rents, how much they spent on code compliance work, whether they lost tenants due to increases, and whether FACE had attracted more desirable tenants to their building.

I. RENTAL CHANGE

To isolate rental change attributable to FACE, the amount of change reported for the FACE areas was compared with city-wide rental patterns. The city-wide change was measured as the difference between the median monthly rental reported in a 1966 survey of apartment buildings of four or more units and the median monthly rental reported in the 1970 Census. This city-wide change amounted to \$29.00 over 4 years, or \$7.25 annually, an annual increase of 7.4 percent.

Surprisingly, the change in the FACE areas was considerably less than City-wide. Owners reported an average increase of \$5.40 or 4.7 percent annually, and tenants reported an average of \$4.93 or 3.6 percent annually. Long term tenants (who are the most likely to have had rent increases) of 5 years or more in the same unit reported an average of \$5.40, substantiating the figures reported by owners.



MEDIAN RENT LEVELS

SAN FRANCISCO AND FOUR FACE AREAS, 1966 AND 1971

Among the four FACE areas there was considerable variation. Buena Vista Heights, an area with City views, good climate and easy access to downtown, and which was experiencing an up-grading before FACE began, could be expected to have the greatest increase. Great Highway area, with the lowest amenity level, according to the survey findings had the least rental increase.

OWNER REPORTED RENT INCREASE

	<u>1966-71 Increase</u>	<u>Annual Increase</u>	<u>1966-71 % Change</u>
Buena Vista Heights	\$39/mo.	\$7.80/mo.	32
Glen Park	28	5.60	32
Arguello Park	24	4.80	21
Great Highway	16	3.20	12
TOTAL	27	5.40	24

TENANT REPORTED ANNUAL RENT INCREASE

	<u>All Tenants</u>	<u>5 Year Residents</u>
Buena Vista Heights	\$6.82/mo.	\$5.20/mo.
Arguello Park	4.60	5.60
Great Highway	4.25	5.40
Glen Park*	2.43	Insufficient Response
TOTAL	4.93	5.40

(*The figures for Glen Park are of questionable value because there are so few apartments in the area.)

II. CAUSES OF RENT INCREASE

The questionnaire cited four possible reasons for increasing rents and asked owners what percent of their increase could be attributed to each. Property tax was cited as the greatest cause by 62 percent, whereas cost of code compliance work was cited by only 28 percent.

Over half of those citing taxes as the chief cause said it accounted for all of their increase. In contrast only a fifth of these citing improvement costs said it accounted for the whole increase. Rising maintenance and service costs were most commonly chosen as the second and third rank cause of rent increase. Owners were least willing to admit the profit motive, as can be seen on the following table.

<u>OWNER'S RANKING OF CAUSES FOR RENT INCREASE</u>				
	Cost of: Improvements, Maintenance, Taxes, Profit			
Greatest Cause	28%	8%	62%	2%
2nd Choice	25%	28%	22%	7%
3rd Choice	36%	50%	8%	6%
Cumulative Score	28%	26%	41%	5%

It is possible that an owner would be more likely to blame taxes than to admit the profit motive, but there is no similar tendency to underrate code compliance or maintenance costs. The accuracy of these judgments seems to be confirmed by available data.

City-wide reassessment of property in the wake of Assembly Bill 80 (uniform assessment practices) in 1967 resulted in big increases in assessments on residential property. These ranged from 50 to 117 percent in the four FACE areas. Since that time, 1967 to 1971, assessments have risen from 1.1% to 5.3% in those areas. During the same time City-wide assessments have risen 7.7%. It is reasonable to conclude that FACE has not triggered any substantive increase in taxes.

<u>PROPERTY ASSESSMENTS IN FACE AREAS (Dollars In Thousands)</u>						
	<u>1966</u>	<u>1967</u>	<u>1971</u>	<u>Percent Increase 1966-67</u>	<u>Percent Increase 1967-71</u>	<u>Percent Increase 5 Years</u>
Arguello Park	3,755	7,227	7,525	94.8	3.4	101
Buena Vista	3,151	5,107	5,378	62.1	5.3	71
Glen Park	2,181	4,738	4,897	117.2	3.4	125
Great Highway	4,238	6,555	6,629	54.7	1.1	56
City Total	1,298,173	1,814,607	1,955,630	40	7.7	51

With the exception of Buena Vista Heights, the tax increases correspond well with rent increases. Owners in that area put less emphasis than the others on taxes (only 57% cited taxes as opposed to 67%, 70%, and 78% in the other areas) and more emphasis on cost of improvements. Even so, taxes were cited almost twice as frequently as improvement costs in the Buena Vista area.

Computing the property tax revenue in Arguello Park for 1966, '67 and '70, it was found that taxes jumped an average of \$150.00 per dwelling unit in 1967, and have since climbed to \$317.00 higher than they were in 1966. The latter figure amounts to \$26.40 per month, and exceeds the average rent increase (\$24.00) reported in that area. This analysis does not account for the difference in assessments on single dwellings but it does illustrate the severity of the tax problem. Similar calculations indicate monthly tax costs increased \$29.75 in Buena Vista Heights and \$23.40 in Great Highway.

The level of spending on improvements appears to correspond well with the rent increases but would appear to account for less than half of the increases. The following table relates improvement spending and financing costs to the rent increases.

<u>COST OF IMPROVEMENTS RELATED TO RENT INCREASE</u>				
	<u>% Citing Cost as Prime Factor in Rent Increase</u>	<u>Reported Improve- ment Cost Per Unit</u>	<u>Correspond- ing FACE Loan Payment/Mo.</u>	<u>Monthly Rent Increase 1966-71</u>
Buena Vista	34	\$2,706	\$15	\$39
Glen Park	30	1,942	11	28
Arguello Park	17	1,316	7	24
Great Highway	28	1,173	6	16

The table implies a relationship between rent increases and improvement costs , but the cost of financing figures indicates that other factors are more important . The disproportionate rent increase in Arguello Park implies that rents are more determined by the rental market and taxes than by improvement spending . The market for luxury housing which developed in Buena Vista Heights explains why owners were willing to spend over twice as much as in Arguello and Great Highway on code compliance .

III. IMPACT ON TENANTS

Owners as well as tenants were asked questions which would indicate how tenants fared in the program. Few owners reported that they lost tenants because of rental increase or work associated with the FACE program.

<u>PERCENTAGE OF OWNERS REPORTING LOSS OF TENANTS</u>	
Buena Vista Heights	12%
Great Highway	10
Glen Park	8
Arguello Park	4

It is tempting to speculate how owners interpreted the second question: whether or not FACE attracted more desirable tenants to their building. If "more desirable" was answered in terms of racial prejudice or ability to pay rent promptly or pay a higher rent, or how the tenant cares for the property we cannot tell from the response. What is significant, however, is that an affirmative response would mean that FACE causes a social change in the area.

A third of the owners did not answer the question, or said it was not applicable. The negative response, that FACE had not attracted more desirable tenants, outnumber the affirmative by 3 to 1. The very weak "yes" response (17%) indicates that FACE does not cause significant social change.

OWNERS' RESPONSE AS TO WHETHER FACE ATTRACTS MORE DESIRABLE TENANTS

	YES	NO	NO ANSWER
Arguello Park	16	46	35
Buena Vista Heights	11	20	19
Glen Park	1	7	4
Great Highway	<u>2</u>	<u>18</u>	<u>10</u>
TOTAL	30	91	68

Tenants were asked if improvements were made to their apartment and if they felt the improvements were worth the higher rent. The tenants did not seem to associate improvements with higher rents. Many had moved in too recently to be aware of the FACE program or were not that aware of improvements made because their own unit had not been directly affected.

Tenants were asked several questions about intent to move to determine the degree of satisfaction with their living conditions. Most people (70%) planned to stay where they are, some did not answer (6%) and a sizable number (24%) anticipated moving. Of those moving, most were vague, often thinking they might run across an apartment that appealed more to them, or had plans to move to another part of the country, or go into military service, etc. Only a small percentage (5%) expressed negative reasons such as insufficient space, high rent, or difficult landlord, etc.

IV. APPLICABILITY TO OTHER NEIGHBORHOODS

Applicability of the findings of this study to other FACE areas or areas being considered for FACE is limited by the different conditions that apply to each. This study has shown how marked are differences in the way areas respond and react to the program, depending on the severity of blight and forces of the rental market. Cost of improvements is likely to be higher and exert more pressure on rents in more blighted areas, however the study indicates that in such areas owners tend to hold investment levels to a minimum. Investment in extensive rehabilitation is likely to be very sporadic in low rent areas and commonplace in high rent areas.

In potential FACE areas the human problems caused by rent escalation or dislocation promise to be effectively handled by the more generous services and financial aids to tenants provided by the 1970 Relocation Assistance Act. The Act provides for replacement housing payments up to \$4,000 and covering as much as four years, and can be applied toward higher rents or as a down payment to purchase a house. Other provisions provide for moving costs and similar expenses.

V. CONCLUSIONS

The survey was of necessity limited to a small sample which serves only as an indicator of what happened on a broader scale. Despite the hazards of projecting from small samples, the consistency of the information gathered supports these general conclusions:

1. FACE did not result in significant rent increases in the initial four areas. Moreover, through its subsidized loan program it may have contributed to keeping rents down. Rent increases in all the FACE areas, except Buena Vista Heights, were below the City-wide average.
2. Rent increases were caused primarily by property tax increases. Improvement spending was a secondary factor and appears to have been more heavily influenced by the rental market than by code requirements.
3. Fears that FACE results in widespread reassessment are not substantiated. Assessment figures indicate less increase in FACE areas than City-wide.
4. Loss of tenants due to rent increases was low. FACE records also indicate that displacement due to the program was low, slightly over one-half of one percent.

CITY AND COUNTY OF SAN FRANCISCO

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